

What's New

IRS Calendar Year Limit for Dependent Care FRAs

The maximum amount you can set aside each year in a Dependent Care FRA is determined by the Internal Revenue Service (IRS) and based on"

- a calendar year (January through December) for tax purposes and
- your tax filing status.

If you are enrolling in a Dependent Care FRA during the spring 2004 Open Enrollment for the July 2004 — June 2005 plan year, carefully evaluate your elections to ensure they remain within the IRS limits. You cannot exceed the calendar year maximum established by the IRS for a Dependent Care FRA. For more information on IRS limits, see the *Flexible Benefits Sourcebook* or visit the Flexible Benefits Program link on the DHRM Web site (see Page 12 of your Flexible Benefits Sourcebook).

Mid-year changes to your election are not allowed unless you experience a qualifying event as outlined in the Flexible Benefits Sourcebook. Any amount over the allowable dependent care maximum will be subject to all applicable taxes.

Orthodontia

Expenses for medically necessary orthodontic care are reimbursable under an MFSA if the following documentation from the treating dentist /orthodontist is attached to the initial FSA Reimbursement Request Form: (i) a written statement (i.e., bill, receipt, etc.) showing the type and date of service incurred, the name of the eligible individual receiving the care, and the cost of the care, (ii) a signed Letter of Medical Need*, and (iii) a copy of the patient's contract for the treatment (unless the full payment amount is paid up front).

For medically necessary orthodontic care that extends beyond one or more plan years, once the initial service (e.g., banding) has been incurred, eligible MFSA expenses may be reimbursed in the following amounts: (i) the initial down payment, with the remaining balance spread out under a payment plan; (ii) the full contract amount spread out under a payment plan; (iii) the full contract amount paid monthly by coupon submitted each applicable month, or (iv) the full payment amount paid entirely up front. Note: Reimbursement of the full payment amount may only occur during the plan year in which the braces are first installed.

* Visit FBMC's Website at www.fbmc-benefits.com, contact FBMC Customer Service at: webcustomerservice@fbmc-benefits.com, or call FBMC Customer Service at 1-800-342-8017 for more information or to obtain a sample Letter of Medical Need.



Enrollment At A Glance

IMPORTANT DATES TO REMEMBER

YOUR OPEN ENROLLMENT DATES ARE:

April 14, 2004 - May 14, 2004

YOUR PERIOD OF COVERAGE DATES ARE:

July 1, 2004 - June 30, 2005

The Commonwealth of Virginia's Flexible Benefits Program components are Premium Conversion and Flexible Reimbursement Accounts (FRAs).

- **Premium Conversion** allows you to receive a pre-tax benefit for your payroll-deducted contribution to your health benefits premium. All participants enrolled in a state health benefits plan are automatically enrolled for Premium Conversion.
- **Flexible Reimbursement Accounts allow** you to set aside part of your salary each pay period on a pre-tax basis for one or both of the following accounts:
 - **Medical Expense Flexible Reimbursement Account** — provides reimbursement for eligible out-of-pocket medical, dental and vision care expenses not covered by your health benefits plan and
 - **Dependent Care Flexible Reimbursement Account** — provides reimbursement for eligible expenses for the care of your child, disabled spouse, elderly parent or other dependent incapable of self-care.

Because of the tax advantages the Flexible Benefits Program provides, there are tax laws and Internal Revenue Service regulations governing how the program operates. For more detailed information or clarification, see your agency's Benefits Administrator or visit the DHRM Web site at: www.dhrm.state.va.us.

Your FRA Plan Year Enrollment

Beginning in July 2004, Flexible Reimbursement Accounts (FRAs) plan year will be on a fiscal year basis, from July 1 through June 30. Open Enrollment for FRAs will be held in conjunction with Open Enrollment for health benefits to be effective July 1, 2004.

What's New

1. You can now be reimbursed for certain Over-the-Counter (OTC) antacid, pain relief, cold and allergy medicine expenses from your Medical Expense FRA!
2. Review the rules regarding Orthodontia Reimbursement Requests on Page 11 of your Flexible Benefits Sourcesbook.
3. Mileage reimbursement for your Medical Expense FRA has increased to .14 cents per mile.

Important Information

1. The FRA Open Enrollment period is April 14 through May 14. To enroll in a Reimbursement Account, visit EmployeeDirect at <http://edirect.state.va.us> or contact your agency's Benefits Administrator. Visit the DHRM Web site at: www.dhrm.state.va.us for more information.
2. Enrollment in your Flexible Reimbursement Accounts must be done each plan year, even if your total contribution for the new plan year remains the same. **You must enroll by May 14, 2004.**
3. Employees who enroll through EmployeeDirect will receive a confirmation advising them that the request has been successfully processed. Employees should review their election profile for accuracy.
4. You will receive a confirmation letter for your Flexible Reimbursement Account election(s) from Fringe Benefits Management Company (FBMC). Please review the letter to verify the type and amount of the election(s). If you discover an error, you must notify your agency's Benefits Administrator immediately.
5. If you have questions about the Flexible Reimbursement Accounts, call FBMC Customer Service at 1-800-342-8017, Monday through Friday, 7 a.m. to 10 p.m. ET, 1-800-955-8771 (TDD). You may also visit FBMC's Web site, www.fbmc-benefits.com.
6. **Remember, you have a three-month grace period at the end of the plan year for reimbursement of eligible FRA expenses incurred during your period of coverage within the plan year.**

Medical Expense Flexible Reimbursement Account:

Minimum: \$10 per pay period

Maximum for the plan year: \$5,000

Dependent Care Reimbursement Account:

Minimum: \$10 per pay period

Maximum for the plan year: \$5,000

The annual maximum contribution depends on your tax filing status. Participants should review the information on Page 12 of the Flexible Benefits Sourcebook, regarding the IRS calendar year limits on the dependent care reimbursement account.



Enrollment At A Glance *Continued*

"Use It or Lose It"

Be conservative when estimating your medical and/or dependent care expenses for the plan year. IRS regulations state that any unused funds which remain in a FRA after a plan year ends and all reimbursable requests have been submitted and processed within the grace period cannot be returned to you nor carried forward to the next plan year.

Plan Year Closeout

You have a three-month grace period (until September 30, 2005) at the end of the plan year for reimbursement of eligible FRA expenses incurred during your period of coverage within the 2004-2005 Plan Year.

Information on Your FRA Benefits

Information regarding your Flexible Reimbursement Accounts is right at your fingertips! You may either:

- Visit the FBMC Web site at www.fbmc-benefits.com to check your account status, review frequently asked questions, download forms or complete a tax savings analysis to see if you would benefit by enrolling in a reimbursement account,
- Call the Interactive Benefits Information line at 1-800-865-FBMC (3262) to review your FRA benefit information and request claim forms, or
- Send an e-mail to FBMC Customer Service at: webcustomerservice@fbmc-benefits.com.

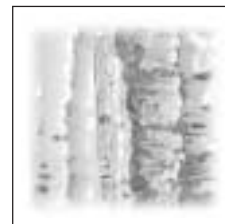
To access your personal account information, you will need your Social Security Number and Personal Identification Number (PIN). (See Page 15 of the Flexible Benefits Sourcebook for more details).

Enrollment Actions

To enroll in or make a change to a Medical or Dependent Care FRA, you must submit an enrollment action or request within the specified time period. For Open Enrollment, the request must be received by the end of the Open Enrollment period for the plan year (May 14, 2004). If you are requesting to make a change as a result of a qualifying mid-year event, you must submit the request within 31 days of the event (See the *Changing Your Coverage* section of the Flexible Benefits Sourcebook).

The enrollment request can be submitted in one of the following ways:

- **Use EmployeeDirect on the Web at <http://edirect.state.va.us>** You will need your personal identification number and EmployeeDirect passcode to login. Once you are logged in, EmployeeDirect will provide step-by-step instructions.
- **Complete an FRA Election Form or the FRA section on the Health Benefits Enrollment Form for Active Employees** and submit it to your Benefits Administrator. You may find the forms on the Department of Human Resource Management (DHRM) Web site at www.dhmr.state.va.us under the Compensation and Benefits link. They are also available from your agency Benefits Administrator.



OTC Category Reimbursement

This category list supersedes previous OTC information you may have received.

Over-the-Counter Expenses

Over-the-Counter (OTC) items, medicines and drugs are now reimbursable through your Medical FRA! You can save valuable tax dollars on certain categories of Over-the-Counter items, medicines and drugs. You may be reimbursed for OTC expenses through your Medical FRA if:

- the item, medicine or drug was used for a specific medical condition for you, your spouse and/or your dependent(s)
- the submitted receipt clearly states the purchase date and name of the item, medicine or drug
- the reimbursement request is for an expense allowed by your Medical FRA and IRS regulations and
- you submit your reimbursement request in a timely and complete manner, already described in your benefits enrollment information.

Note: OTC items, medicines and drugs, including bulk purchases, must be used in the same plan year in which you claim reimbursement for their cost.

The list of eligible OTC categories will be updated on a quarterly basis by FBMC. It is your responsibility to remain informed of updates to this listing, which can be found at www.fbmc-benefits.com. As soon as an OTC item, medicine or drug becomes eligible under any of the categories below, it will be reimbursable retroactively to the start of the then current plan year (commencing January 1, 2004, and later).

Newly eligible OTC items, medicines and drugs are not considered a valid change in status event that would allow you to change your annual Medical Expense FSA election or salary reduction amount. Be sure to maintain sufficient documentation to submit receipts for reimbursement. You may resubmit a copy of your receipt from your records if a rejected OTC expense becomes eligible for reimbursement later in the same plan year.

Eligible Expense Categories

Allergy

Antihistamines
Nasal sprays

Antacids

Heartburn medicines

Cold Remedies

Cough drops
Decongestants
Nasal strips
Nasal sprays
Sinus medications
Throat lozenges

Pain Relief

Bug bite medication
Fever reducers
First aid creams (diaper, fever blister, poison ivy)
Menstrual cycle products for pain and cramp relief
Products for muscle or joint pain
Special ointments or creams for sunburn
Topical creams

Other Medical Remedy Items

Anti-diarrheals
Anti-fungals
Antibiotics
Asthma medications
Bandages, gauze pads, rubbing alcohol, liquid adhesives
Carpel tunnel wrist supports
Cold/hot packs for injuries
Corn/callus removers
Eye products (including reading glasses, contact lens cleaning solutions)
First aid kits
Hemorrhoid treatments
Laxatives
Motion sickness treatments
Nicotine gum or patches for smoking cessation purposes
Thermometers
Wart removers

Items Requiring Special Documentation*

Botanicals/herbals
Feminine hygiene products
Hormones
Minerals
Nasal sprays for snoring
Sunscreens
Vitamins
Weight-loss drugs to treat a specific disease

Ineligible OTC Expenses

Cosmetics
Toiletries
OTC items primarily for general health and well-being

* Contact FBMC Customer Service by e-mail at webcustomerservice@fbmc-benefits.com, or by calling 1-800-342-8017 for more information or to obtain a sample Letter of Medical Need, Personal Use Statement or Third-Party Appraisal Statement.